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Tlhoi Retirement System
1991-1993 Handbook of
information

TEACHERS' RETIREMENT SYSTEM

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Handbook of Information
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THE TEACHERS' RETIREMENT BOARD

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FORWARD

The Montana Teachers' Retirement System was established by state law in 1937. The System has grown from its initial enrollment of 3,367 members to over 16,000 active members and now has assets in excess of \$760 million. A total of 6,721 members and beneficiaries receive retirement, disability, or survivor benefits of over \$58 million each year.

Membership in the Teachers' Retirement System is compulsory for all members of the teaching profession, except for persons teaching less than thirty (30) days in any given school year during the absence of a regular teacher and teachers employed by private schools. Employees of a unit of the Montana university system may elect to participate in the optional retirement program under Title 19, Chapter 21 MCA.

The benefits provided by the System are funded by each member, their employer, together with interest earnings. Over the years many changes and improvements have been enacted through legislation. In order to maintain the actuarial soundness of the System, increases in the employer's and/or employee's contribution rates have occurred with each major improvement since 1945 to the current rates of 7.459% and 7.044%.

An actuarial valuation of the retirement system is performed biennially, as of July 1 of every even numbered year. The purpose of the valuation is to determine the financial position of the fund, the normal cost and the unfunded accrued liability based upon present and prospective assets and liabilities of the system.

As of July 1, 1990, the Actuary determined the system was funded on an actuarial sound basis.

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ADMINISTRATION

The governing body of the Teachers' Retirement System is the retirement board whose names are listed on page i of this booklet.

The board is composed of the Superintendent of Public Instruction, two members appointed from the teaching profession who are members of the system, two persons appointed as representatives of the public and one person who is a retired teacher. Ref: 2-15-1010 MCA

The board employs administrative officers and a staff to conduct the business of the system.

The State Board of Investments invests the funds of the system in various securities permitted by law. These investments are segregated from other state funds. The Treasury Division of the Department of Administration is the custodian of the securities owned by the system.

The powers and duties of the retirement board are as follows: Ref: 19-4-201, 203, 204, 501, 601 and 701 MCA.

- (1) Establish rules and regulations necessary for the proper administration and operation of the retirement system.
- (2) Elect a chairman from its membership.
- (3) Appoint a secretary who may be one of its members.
- (4) Employ technical or administrative employees who are necessary for the retirement system.
- (5) Approve or disapprove all expenditures necessary for the proper operation of the retirement system.
- (6) Keep a record of all its proceedings which shall be open to public inspection.
- (7) Publish a biennial report by January 1 of each year the Legislature meets which reports in detail the fiscal transactions for the two fiscal years immediately preceding the report due date, the amount of accumulated cash and securities of the system, and the last fiscal year balance sheet showing the assets and liabilities of the retirement system, and submit the biennial report to the Governor and furnish copies to the Legislature.

- (8) Keep in convenient form that data which is necessary for the actuarial valuation of the retirement system and for checking the experience of the retirement system.
- (9) Designate an actuary to assist the retirement board with the technical actuarial aspects of the retirement system, which include establishing mortality and service tables and making an actuarial investigation at least once every five years into the mortality, service and compensation experience of the members and beneficiaries of the retirement system.
- (10) Prepare an annual valuation of the assets and liabilities of the retirement system.
- (11) Determine the eligibility of a person to become a member of the retirement system.
- (12) Prescribe a form for membership application which will provide adequate and necessary information for the proper operation of the retirement system.
- (13) Adopt policies for the determination of creditable service in the retirement system implementing the following guidelines:
 - (a) one (1) year of creditable service shall be awarded for each year of full-time service, outside of vacation periods, but no more than one (1) year of creditable service shall be awarded for service during the same school or fiscal year.
 - (b) not more than one (1) month of creditable service shall be awarded for one (1) or more continuous months of absence without pay.
- (14) Grant retirement, disability and other benefits.
- (15) Annually determine the rate of regular interest.
- (16) Establish and maintain the funds of the retirement system in accordance with the provisions of the Teachers Retirement Act.
- (17) Perform other duties and functions as required to properly administer and operate the retirement system.

MEMBERSHIP

Membership in the Teachers' Retirement System is compulsory. A substitute who teaches less than 30 days, during the absence of a regular teacher may elect to become a member on the first day of employment in each fiscal year. If a substitute has not elected membership, that person must become a member on the 31st day of employment, in each fiscal year. A part-time employee who will teach more than 30 days during a fiscal year is required to be a member on the first day of employment in each fiscal year. Membership for a part-time employee is not required if their employment is less than 30 days.

Membership applies to all persons employed as teachers, librarians, physical education directors, speech therapists, school nurses, school psychologists, principals, vice-principals, supervisors, superintendents, county superintendents of schools, and any other member of the teaching or professional staff of any public school, elementary school, high school, or special education cooperative in the State of Montana, and any member of the administrative, instructional, or scientific staff of the units of the University System. Board of Regent contracts are not the determining factor for eligibility under the Teachers' Retirement System. Membership also applies to any person employed in the office of, or by, the State Superintendent of Public Instruction in a position that has a significant degree of executive or policy-making authority and whose appointments are based on required training or experience in the field of education.

MEMBERSHIP OF SUBSTITUTE TEACHERS

The employer must give written notification to a substitute teacher on their first day of employment in any fiscal year of their option to elect membership. A substitute teacher who did not elect membership and subsequently becomes a member may purchase creditable service for the first 30 days of substitute teaching service by contributing an amount equal to the combined employee-employer contribution rate that would have been made if the substitute teacher had elected membership on the first day of employment, plus interest at the rate the contributions would have earned interest had they been on deposit with the retirement system. Ref: 19-4-302(3) MCA.

MEMBERSHIP OF TEACHERS' AIDES

- (1) Teacher's aides employed after July 1, 1989, are required to participate in the Teachers' Retirement System provided they are:
 - (a) employed in an instructional services capacity for 50% or more of the academic day and;
 - (b) employed for the equivalent of 30 full-time days during the school year.
- (2) A teacher's aide will be considered in an instructional services capacity if they are assisting a certified teacher in the education and instruction of students in the regular curriculum of the institution.

The Teachers' Retirement System does not require certification as a condition for membership. Positions of an instructional nature are eligible for membership with the Teachers' Retirement System. Please call or write the Teachers' Retirement System if you have any questions regarding membership.

FULL-TIME SERVICE

"Full-time service" means service which is full-time and which extends over a normal school year of at least nine (9) months or 180 full-time days in any one (1) school year. If a member contracts for employment in excess of nine (9) months, only one (1) year of creditable service shall be awarded for each fiscal year. Ref: 19-4-101(10) MCA.

PART-TIME SERVICE

"Part-time service" means service which is less than full-time or which totals less than 180 full-time days in any one (1) school year. Part-time service shall be credited in the proportion that the actual time worked bears to full-time service. Ref: 19-4-101(12) MCA.

For example: A member who is employed for six (6) full months would receive 6/9 of a year service credit or .67.

CONTRIBUTIONS

MEMBER'S SHARE

Effective July 1, 1985, employee contributions are, for tax purposes, considered "picked-up" and paid by the employer. In other words, the contributions are deducted from your gross earnings before any federal or state income tax is withheld. Contributions withheld and reported on the July 1985 report and subsequent monthly reports will be taxable when you receive them in the form of a refund or monthly retirement benefit. Ref: 414(h)(2) IRC.

You are currently required to contribute 7.044% of your gross monthly salary before any other deductions are made. Ref: 19-4-602 MCA.

Employee Contribution Rates

July 1, 1937 - June 30, 1973	5.000%
July 1, 1973 - June 30, 1975	5.125%
July 1, 1975 - June 30, 1977	6.125%
July 1, 1977 - June 30, 1983	6.187%
July 1, 1983 -	7.044%

Voluntary contributions deducted from your salary for the purpose of purchasing additional creditable service and/or termination pay contributions are **not** tax deferred contributions.

EMPLOYER'S SHARE

Your employer currently pays 7.459% of total payroll to the retirement system. This contribution is not allocated to individual members, but is placed in the fund which together with earnings on investments provides funding for your retirement benefit not funded by your retirement account, benefit enhancements and amortization of any unfunded liability. Ref: 19-4-605 MCA.

Employer Contribution Rates

July 1, 1937 - June 30, 1945	None
July 1, 1945 - June 30, 1959	3.750%
July 1, 1959 - June 30, 1969	4.000%
July 1, 1969 - June 30, 1971	4.500%
July 1, 1971 - June 30, 1973	5.125%
July 1, 1973 - June 30, 1975	5.250%
July 1, 1975 - June 30, 1977	6.250%
July 1, 1977 - June 30, 1981	6.312%
July 1, 1981 - Sept 30, 1981	6.432%
Oct. 1, 1981 - June 30, 1983	6.463%
July 1, 1983 - June 30, 1985	7.320%
July 1, 1985 - June 30, 1989	7.428%
July 1, 1989 -	7.459%

INTEREST CREDITS AND CHARGES

Effective July 1, 1987, interest is credited monthly at the rate of 7% per annum, compounded annually. The interest rate is not fixed by law, but is set by the retirement board. Ref: 19-4-501 MCA.

Interest will be charged on the redeposit of withdrawals and purchase of additional creditable service at the rate set by the retirement board for any given period. (See table below.) Interest is charged on the unpaid balance as of July 1 of each fiscal year.

July 1, 1971 - June 30, 1980	5.50%
July 1, 1980 - June 30, 1981	7.00%
July 1, 1981 - June 30, 1987	8.00%
July 1, 1987 -	7.00%

The purchase of one (1) year additional service for every five (5) years of membership service will be charged interest at the rate established by statute of 8% per annum on the unpaid balance as of July 1 of each fiscal year. Military service purchased with the additional service is also subject to the interest rate of 8%. Ref: 19-4-412(2)(ii) MCA.

VESTED RIGHT

You have a vested right in the Teachers' Retirement System after the completion of five (5) years of service or part-time service which totals five (5) years of full-time service in Montana and on which contributions have been paid. With a vested right you are entitled to retirement and disability benefits, if otherwise qualified; your beneficiary may be entitled to death benefits.

If you cease to be employed in a position which would qualify you for membership in the system, you will retain your vested right, provided you do not withdraw your contributions from the system. An annual statement will be mailed direct to your home address. Please notify this office of any address change.

BENEFITS

The Teachers' Retirement System provides not only retirement benefits, but also substantial death and disability benefits. The formula from which these three benefits are calculated is:

$$\text{ANNUAL BENEFIT} = \frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$$

(This annual benefit will be paid in 12 equal monthly installments.)

The formula is independent of sex, age, and the amount of your retirement account. The amount of the benefit depends only on your creditable service and final average compensation.

AVERAGE FINAL COMPENSATION

Average Final Compensation means the average of the "earned compensation" you earned during the three (3) consecutive years of full-time service which yield the highest average and on which contributions have been made.

Each year's compensation used in the calculation of average final compensation may not exceed the compensation used in the preceding year by more than 10%, except as provided by rule of the retirement board.

Compensation in excess of the 10% limit is considered termination pay for the purpose of calculating average final compensation. For the use of termination pay in the calculation of average final compensation, see Earned Compensation Including Termination Pay on page 9. Ref: 19-4-101(5) MCA.

Note: You should be cautioned that taking leave without pay during the period used in calculating "average final compensation" may result in reducing the salaries used in determining "average final compensation" and a resulting decrease in your monthly retirement benefit. Also, if you do not complete at least nine (9) full months of full-time employment in each of the three (3) consecutive years utilized in determining your "average final compensation," this may result in a different period of time used in calculating your "average final compensation" which, in turn, may result in a reduced benefit.

EARNED COMPENSATION

Earned Compensation means the full compensation, pay or salary actually paid to you and reported to the retirement system, including amounts paid under a salary reduction agreement, a cafeteria plan, a tax-sheltered annuity, a deferred compensation program and the value of any housing provided by the employer. The employer shall fix the value of any housing provided. The term does not include any other amounts paid in kind or fringe benefits not actually paid to you. If you have less than three (3) consecutive years of full-time service during the five (5) years preceding your retirement; your earned compensation is the compensation, pay or salary which you would have earned had your part-time service been full-time service.

If you are awarded a disability retirement allowance prior to the completion of a full year; your earned compensation is the compensation, pay or salary which you would have received had you completed the full year; except that any termination pay you receive is limited to the amount actually paid and is not the amount you would have earned had you completed the full year. Ref: 19-4-101(8) MCA.

Lump sum payments made under contract at the end of the school term for unused personal leave days or for accruals of leave in excess of that allowed under contract will be treated as earned compensation unless paid on account of termination. Ref: Administrative Rule 2.44.514.

PURCHASE OF SALARY CREDIT

You may apply for credit for earned compensation that was not paid to you and not reported to the retirement system because of a temporary absence. To qualify salary, a contribution must be paid in an amount equal to 5.7% of the salary not reported multiplied by your total years of creditable service.

EARNED COMPENSATION INCLUDING TERMINATION PAY

Termination pay includes any form of termination pay, or any lump sum payment for deferred compensation, sick leave or accumulated vacation credit, or any other payment for time not worked, other than compensation received while on sick leave or an authorized leave of absence. Termination pay also includes excess earned compensation above the 10% limitation on earnings. If your earned compensation includes any termination pay, you have three (3) options. It is not required that you elect the same option for excess earned compensation as you elect for termination pay. Ref: 19-4-101(5) MCA.

Option I.

Use the total termination pay in the calculation of the average final compensation. You and your employer shall pay such contributions to the retirement system as are determined by the retirement board to adequately compensate the system for the additional retirement benefit. The contributions must be made at the time the termination pay is received and are calculated as follows:

Employee cost = Employee rate x termination pay x total years of creditable service.

Employer cost = Employer rate x termination pay x total years of creditable service.

TERMINATION PAY RATE TABLE

RETIREMENT AGE	EMPLOYEE RATE	EMPLOYER RATE
45	3.17%	3.35%
46	3.15%	3.32%
47	3.13%	3.30%
48	3.11%	3.27%
49	3.08%	3.25%
50	3.05%	3.22%
51	3.03%	3.19%
52	3.00%	3.16%

RETIREMENT AGE	EMPLOYEE RATE	EMPLOYER RATE
53	2.97%	3.13%
54	2.94%	3.10%
55	2.90%	3.06%
56	2.87%	3.02%
57	2.83%	2.99%
58	2.79%	2.95%
59	2.75%	2.90%
60	2.71%	2.85%
61	2.66%	2.81%
62	2.62%	2.76%
63	2.57%	2.70%
64	2.52%	2.65%
65	2.46%	2.60%

Option II.

Use a yearly amount of termination pay added to each of the three (3) consecutive year's salary used in the calculation of the "average final compensation". The amount of such compensation must be divided by the total number of years of creditable service to determine a yearly amount. You and your employer must pay the regular contribution rate on this termination pay.

For example: Assume \$3,000.00 in termination pay and 25 years of service. $\$3,000.00 \div 25 = \120.00 . \$120.00 would be added to each of the three salaries used in the calculation of average final compensation.

Option III.

Exclude the termination pay from the calculation of average final compensation. No contribution is required of either you or your employer. Any contributions reported must be refunded.

If you terminate employment, not for retirement purposes, you still have the right to select the option on how you wish to utilize termination pay for retirement purposes. If it is not your intention to apply for retirement benefits in the near future or you are electing to withdraw your account, you should not elect Option I or Option II.

Contributions withheld by the employer for termination pay will not be considered "picked up" by the employer; therefore, the contributions on termination pay are not tax-deferred.

CREDITABLE SERVICE

Creditable service can be obtained from nine (9) sources. It is generally to your advantage to obtain as much credit as possible from each of these sources. The purchase of creditable service is optional; therefore, the additional contributions reported for the purchase of creditable service are not tax-deferred.

(1) MEMBERSHIP SERVICE

Membership service consists of all teaching service in Montana since 1937 for which contributions have been paid and which remain on deposit. You have a vested right in the Teachers' Retirement System after the completion of five full years of membership service.

(2) MILITARY SERVICE

Military service is subject to the limit on creditable service which may be awarded, see page 18.

If you were a member of TRS prior to July 1, 1971, and have a vested right, you may receive service credit, without cost, for active service in the Army, Air Force, Navy, Marines, Merchant Marine or Red Cross, during World War II from October 1940 through June 1947 and the Korean Conflict from June 1950 through January 1955, by submitting a copy of your military papers indicating the date of entry into active duty and the date of separation from active duty.

If you have active service in the Army, Navy, Marine Corp, Air Force and Coast Guard during the Vietnam Conflict you may receive up to four (4) years of military service credit without cost provided such active duty was performed between December 22, 1961, and May 7, 1975, both dates inclusive. In order to receive credit for this service, you must have a vested right and provide the Teachers' Retirement System with a copy of the military papers indicating your date of entry into active duty and your date of separation.

If your date of membership or military service does not meet the above conditions you may purchase up to two (2) years of active military service provided you have a vested right. For each year purchased, the cost is an amount equal to the combined employee-employer rate in effect at the time you become eligible to purchase such service, multiplied by your first full year's teaching salary earned in Montana following the active service. Ref: 19-4-404 MCA.

Interest will be charged from the time you become eligible for purchase or July 1, 1973, whichever is later.

Your date of entry to active duty and your date of separation from active duty are on Form DD-214. A copy of your Form DD-214 may be obtained by writing the following address:

General Services Administration
National Personnel Records Center
9700 Page Blvd.
St. Louis, MO 63132

As of July 1, 1989, if you elect to purchase one (1) year additional service for every five (5) years of teaching service, the purchase of military service may be used only for the purpose of calculating your retirement allowance and may not be considered creditable service for the purpose of determining eligibility for service retirement or early retirement.

Military service granted at no cost will appear on your annual statement of account as "Prior Service."

(3) OUT-OF-STATE TEACHING SERVICE

If you were a member on or before July 1, 1989, you may apply for creditable service in the Teachers' Retirement System for out-of-state teaching service performed within the United States, its territories or possessions, that would have been acceptable if the service had been performed in the State of Montana. If you contributed to a public retirement plan, other than Social Security, while performing the out-of-state service, you must receive a refund of your contributions from the other state before qualifying this service in Montana. You may not purchase out-of-state service if you are receiving credit for the same service in another state. Research assistants and graduate student teaching may not qualify under the Montana Teachers' Retirement System.

Out-of-state teaching service is subject to the limit on creditable service which may be awarded, see page 18.

- (a) If you were a member of the Montana Teachers' Retirement System prior to July 1, 1967, and have not withdrawn your account, you may purchase up to ten (10) years of out-of-state teaching credit provided you have ten (10) years of Montana teachers' retirement membership service following your out-of-state service.

- (b) If you were a member on or after July 1, 1967, but prior to July 1, 1979, and have not withdrawn your account, you may purchase up to five (5) years of out-of-state teaching service provided you have five (5) years of Montana teachers' retirement membership service following the out-of-state service. In either case, for each year purchased, the cost is an amount equal to the employee rate in effect at the time you become eligible to purchase such service, multiplied by your first full year's teaching salary earned in Montana following the out-of-state service.
- (c) If you were a member of the system on or after July 1, 1979, and before July 1, 1989, and have completed five years of Montana teachers' retirement membership service following your out-of-state teaching service you may purchase up to five (5) years out-of-state service. For each year purchased, the cost is an amount equal to the combined employee-employer contribution rate in effect at the time of eligibility multiplied by your first full year's teaching salary earned in Montana following the out-of-state teaching service.

Interest will be charged from the time you become eligible for purchase or July 1, 1971, whichever is later.

- (d) As of July 1, 1989, out-of-state employment includes service performed outside the United States in a federal or other public or private school or institution, if the service would have been acceptable to the Teachers' Retirement System if performed in the State of Montana.

If you elect to qualify service performed outside the United States in a federal, public, or private school or institution, the cost for each year of service to be qualified is an amount equal to the combined employee-employer contribution rate multiplied by your first full year's teaching salary earned in Montana after the out-of-state service or after July 1, 1989, whichever date is later.

Interest will be charged at the rate the contributions would have earned interest had the contributions been in your account from the date you were eligible to purchase your out-of-state teaching service. The contribution rate must be the rate in effect at the time you become eligible to purchase this service or the rate in effect on July 1, 1989, whichever date is later. Ref: 19-4-402 MCA.

(4) SERVICE WHILE ON LEAVE

Leave service is subject to the limit on creditable service which may be awarded, see page 18.

If you have five (5) years or more of creditable service in the retirement system and were a member of the retirement system before July 1, 1989, you may apply for creditable service for employment while on leave conditional upon you having been a member prior to the leave and upon completing one (1) full year of membership service in Montana subsequent to your return. For each year purchased, the cost is an amount equal to the combined employee-employer contribution rate in effect at the time you become eligible to purchase such service multiplied by your first full year's teaching salary earned in Montana following your return, not exceeding two (2) years.

Interest will be charged at the rate the contributions would have earned interest had the contributions been on deposit with the retirement system from the date you become eligible to purchase service while on leave. Ref: 19-4-403 MCA.

(5) REPAYMENTS OF WITHDRAWALS

If you were a member of the system and withdrew your contributions on one or more occasions, you may redeposit the amounts withdrawn and receive credit for the service represented. All withdrawals must be redeposited before credit can be reinstated. Should you desire to repay amounts previously withdrawn, you may write to this office. You will be notified of the redeposit required and the service that will be reinstated after completing payment. Ref: 19-4-602(2) MCA.

Interest will be charged from the date of each withdrawal or July 1, 1971, whichever is later.

(6) TRANSFER OF MEMBERSHIP

- (a) **Transfer of service credits from the Montana Public Employees' Retirement System to the Montana Teachers' Retirement System.**

If you were a member of PERS and are now a member of TRS, you may at any time before your retirement make a written election with the TRS Board to transfer your service in the Public Employees' Retirement System. The Public Employees' Retirement System shall transfer to the Teachers' Retirement System an amount equal to 72% of the amount determined to be paid by the employee.

The cost to transfer your PERS service is equal to your accumulated contributions under PERS plus interest from the date of termination until your PERS service is transferred to the Teachers' Retirement System, based on the interest tables in use by PERS.

If you qualify service from the Public Employees' Retirement System in the Teachers' Retirement System you must complete five (5) years of membership service in TRS to qualify or purchase military service, out-of-state teaching service, employment while on leave, and private school employment.

The retirement board shall determine the service credits that may be transferred. There are no statutory provisions for the transfer of PERS salaries for the purpose of calculating RTS retirement benefits, only creditable service is transferable.

If you have creditable service in the Public Employees' Retirement System, which precedes your TRS service, and you die before you qualify this service in the Teachers' Retirement System and if your service credits from both systems, when combined, entitle your beneficiary to a death benefit, the payment of the death benefit is the liability of TRS. Before payment of the death benefit, the PERS Board must transfer to the Teachers' Retirement System the contributions necessary to qualify this service in TRS.

If the retirement board determines that your membership was erroneously classified, your accumulated contributions and service must be transferred to TRS and any employee and employer contributions due plus interest are the liability of the employee and the employing entity where the error occurred.

(b) Transfer of service credits from the Teachers' Retirement System to the Public Employees' Retirement System.

For the cost to transfer TRS service to PERS, please contact the Public Employees' Retirement office.

(7) PRIVATE SCHOOL EMPLOYMENT

Private school teaching service is subject to the limit on creditable service which may be awarded, see page 18.

If you were a member of the system before July 1, 1989, and have been credited with five (5) full-time years of membership service following employment in a private elementary or post-secondary school, you may purchase up to five (5) years of private school employment provided the service was of an instructional nature or employment as an administrative officer or a member of the scientific staff. This does not include students employed by a private elementary, secondary or post-secondary school.

An institution shall be deemed to be a private elementary or post-secondary educational institution if it meets the following requirements:

- (a) has a governing authority;
- (b) can show that it provides instructions in the program prescribed by the board of public education of the state in which it operates;
- (c) a kindergarten teacher must instruct children who will be eligible to attend the first grade as required by the law of the state in which the institution operates; and
- (d) is not operated in a private home. Ref: Administrative Rule 22.44.407.

For each year purchased the cost is an amount equal to the combined employee-employer contribution rate in effect at the time you become eligible, multiplied by your first full years teaching salary earned in Montana following the private school employment. Ref: 19-4-408 MCA.

Interest will be charged from the time you become eligible for purchase or October 1, 1981, whichever is later.

(8) MONTANA COOPERATIVE EXTENSION SERVICE

Montana Cooperative Extension Service is subject to the limit on creditable service which may be awarded, see page 18.

If you were a member of the system before July 1, 1989, and have been credited with five (5) years of membership service, you may qualify up to five (5) years of your employment with the Montana Cooperative Extension Service provided the service involved instructional service at a unit of the Montana University System and you received a refund of your contributions under the Civil Service Retirement System or the Federal Employees Retirement System. For each year purchased the cost is an amount equal to the combined employee and employer contribution rate in effect at the time you become eligible, multiplied by your first full year's teaching salary earned, following the Cooperative Extension Service. Ref: 19-4-410 MCA.

Interest will be charged on the purchase of this service from the time you become eligible for purchase or July 1, 1987, whichever is later.

(9) WORKERS' COMPENSATION

If you were a member prior to July 1, 1989, and were injured while employed in a position covered under the Teachers' Retirement System, you may purchase time lost, which is covered under Workers' Compensation, after you return to work. The maximum time you may purchase is two (2) years. You must contribute an amount equal to the contributions you would have made had you not been injured. The employer is required to pay their share, after your contributions have been received. Ref: 19-4-411 MCA.

Interest will be charged to purchase this service one (1) year after returning to covered employment. If the employer elects not to pay the interest due on their contributions, it shall become your obligation.

You may elect to purchase service credits in any manner convenient to you. If you elect to pay by personal check on a monthly or periodic payment basis all checks should be made payable to the "Teachers' Retirement System" and the type of service being purchased identified on your personal check. Arrangements for payroll deduction must be made through your payroll department. Ref: 19-4-602 MCA.

If you complete only part-time service during the qualifying period to purchase creditable service, the first full year's teaching salary used to calculate the cost to purchase creditable service is the salary you would have earned if your first year's part-time salary had been full-time.

The additional contributions and interest paid toward the purchase of creditable service is not an itemized deduction for federal or state income tax purposes. These payments are your investment or "cost basis." After retirement you will be provided with the amount of your "cost basis" which will be recovered tax-free through receipt of your retirement benefits throughout your life expectancy. See Taxation of Benefits on page 35.

If it is your intention to utilize any of the above service for retirement purposes, payment must be finalized prior to your retirement. You would not be eligible to qualify service after retirement.

In the event of your death or disability while in the process of purchasing service credits, your additional service shall be determined by the fraction of the total payment which had been paid as of the date of your death or disability. If you or anyone acting on your behalf pays the agreed upon balance due prior to the payment of benefits, the additional service will be credited to the your account in full. Ref: Administrative Rule 2.44.404.

LIMIT ON CREDITABLE SERVICE WHICH MAY BE AWARDED

If you joined the Teachers' Retirement System on or after July 1, 1973, you may not be awarded more than five (5) years creditable service in any combination of out-of-state service, military service, private school employment, service while on leave or employment with the Montana Cooperative Extension Service. Ref: 19-4-405 MCA.

ADDITIONAL SERVICE

If you were a member as of July 1, 1989, you may make written election with the retirement board to purchase, for the purpose of calculating your retirement allowance, one (1) year of additional service for each five (5) years of service on which contributions have been made while you were employed in a position covered by the Teachers' Retirement System and each five (5) years of membership service as transferred from the Public Employees' Retirement System to TRS. A maximum of five (5) years of additional service may be purchased. A part-time member may purchase additional service on a prorated basis.

To purchase additional service under this section, you must contribute an amount equal to the combined employee-employer rate on July 1, 1989 or the combined rate in effect at the time you become eligible to purchase this service, whichever date is later, multiplied by your earned compensation, as of the date you become eligible to purchase this service, or July 1, 1989, whichever date is later. Interest at the rate of 8% compounded annually will be charged on the unpaid balance.

The earned compensation used in calculating the cost of purchasing additional service under this section is:

- (1) for the first year of service purchased, your earned compensation for the 1988-89 school year or your earned compensation for your 5th year of service, whichever year is later;
- (2) for the second year of service purchased, your earned compensation for the 1988-89 school year or your earned compensation for your 10th year of service, whichever year is later;
- (3) for the third year of service purchased, your earned compensation for the 1988-89 school year or your earned compensation for your 15th year service, whichever year is later;

- (4) for the fourth year of service purchased, your earned compensation for the 1988-89 school year or your earned compensation for your 20th year of service, whichever year is later; and
- (5) for the fifth year of service purchased, your earned compensation for the 1988-89 school year or your earned compensation for your 25th year of service, whichever year is later.

If you are eligible to purchase creditable service as out-of-state teaching service, service while on leave, private teaching service, Montana cooperative extension service or service for time lost and covered under Workers' Compensation, you may not purchase additional service under this section unless you elect in writing to:

- (1) waive your eligibility to purchase creditable service under the provisions of out-of-state teaching service, employment while on leave, private teaching service, extension service employment or absence due to employment-related injury; and
- (2) apply the accumulated contributions made to purchase service under the provisions of out-of-state teaching service, employment while on leave, private teaching service, extension service employment or absence due to employment-related injury toward the cost of additional service purchased under this section.

Additional service purchased under this section may not be used to qualify you for service retirement benefits or in determining the early retirement adjustments.
Ref: 19-4-412

The additional contributions and interest paid toward the purchase of addition service is not an itemized deduction for federal or state income tax purposes. These payments are your investment or "cost basis." After retirement you will be provided with the amount of your "cost basis" which will be recovered tax-free through receipt of your retirement benefits throughout your life expectancy. See Taxation of Benefits on page 35.

If it is your intention to purchase additional service, payment must be finalized prior to your retirement. You would not be eligible to purchase this service after retirement.

If you were a member on or after July 1, 1989, you are not eligible to purchase out-of-state teaching service, employment while on leave, private teaching service, Montana extension service employment or time lost while covered under Worker's Compenstion.

RETIREMENT BENEFITS

If you have ceased teaching in Montana, you may apply for retirement benefits provided:

- (1) you have been credited with 25 or more years membership service, in which case you are eligible for full retirement regardless of age, or;
- (2) you have at least five (5) years of creditable service and you have attained the age of 50.

The normal retirement age is 60. However, if you have five (5) full years but less than 25 years of creditable service you may retire as early as age 50 with a reduced benefit. The reduction is one-half of one percent (.5%) for each of the first 60 months your retirement date precedes age 60 or 25 years of service and three-tenths of one percent (.3%) for each month in excess of the first 60 months the early retirement precedes age 60 or 25 years of service. Ref: 19-4-801 and 19-4-802 MCA.

For example: An individual who retires at age 50 with 23 years of service would have their benefits reduced 12%. (25 years minus 23 years = 2 years or 24 months x .005 or 12%). A member who retires at age 50 with 10 years of service would experience a reduction of 48%. (Age 60 minus age 50 = 10 years or 120 months. 1st 60 months x .005 = 30%. 2nd 60 months x .003 = 18%. Total reduction = 48%). (30% + 18%).

A member receives credit for all service up to the time of retirement. For example, a member who has 40 years of creditable service at the time of retirement would be allowed to use 40 years of creditable service in the calculation of benefits.

The retirement benefit is determined by the following formula:

$$\text{RETIREMENT BENEFIT} = \frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$$

The amount of your monthly retirement benefit will depend upon the optional form you select. See optional forms of retirement benefits on Page 27. Under the Life Only Annuity (Normal Form) monthly benefits terminate upon your death. Under optional forms, A through E, your beneficiary at the time of retirement will continue to receive a monthly benefit following your death. The amount will depend upon the option selected and upon your age and the age of your beneficiary at retirement.

RETIREMENT APPLICATION PROCEDURE

If you are considering retirement, you should write or visit the Teachers' Retirement System's office at least three months prior to your effective retirement date, and provide TRS with the following information:

- (1) Name and address
- (2) Social Security Number
- (3) Current and/or future fiscal year's salary
- (4) The estimated dollar amount of any anticipated termination pay
- (5) Date of birth
- (6) Beneficiary's name and date of birth
- (7) Date of termination (end of contract)

You will be provided with an estimate of retirement benefits and an application for retirement allowance. If you retire at the end of a school year, your application for retirement is due in the TRS office by June 1 of the year in which you retire. If you retire during a school year, you should submit your application for retirement at least 30 days prior to your effective retirement date. A copy of the your birth certificate is required, and if you elect an option other than the "Normal Form", a copy of your beneficiary's birth certificate is also required.

It is recommended that members who wish to visit the TRS office call or write for an appointment.

EFFECTIVE RETIREMENT DATE

The effective date of your retirement will be:

- (1) July 1 if you retire at the end of a school year, since the school term is considered to be July 1 through June 30.
- (2) The first of the month following termination if you retire during the school term.
- (3) The first of the month following your 60th birthday, or the first of the month following your 50th birthday if you elect early retirement.

Although retirement benefits accrue from the first of the month, they are payable at the end of the month. Payments are always mailed on the last business day of each month.

EARNINGS AFTER RETIREMENT

Any retired member may be employed as a part-time or substitute teacher in Montana and earn, without loss of retirement benefits, an amount not to exceed the greater of:

- (1) one-third (1/3) of the sum of their average final compensation plus normal annual salary increases granted teaching personnel; or
- (2) one-third (1/3) of the median average final compensation for members retired during the preceding fiscal year as determined by the retirement board.

"Normal annual salary increases" is the average percentage increase personnel are projected to receive for a given school year. The projected increase is based on the negotiated average salary increase for **current teaching personnel**.

Retirees who are employed in a part-time or substitute position, covered by the Teachers' Retirement System, are not required to contribute to the Teachers' Retirement System until they have exceeded the amount they are allowed to earn. Should they exceed this amount, the monthly retirement benefit will cease the first of the month in which the earnings exceeded the maximum allowed and the retiree shall be reinstated to active membership status.

Retirees are not limited in the amount they may earn in any employment that would not qualify them as a member of the Teachers' Retirement System. Ref: 19-4-804 MCA.

If you are reinstated to active membership, all service credit at the time of your retirement shall be restored in full to your account. You will not be required to repay the benefits you have received.

DISABILITY BENEFITS

If you become disabled and cannot continue in your position covered under the Teachers' Retirement System, you may be eligible for disability benefits provided:

- (1) You have five (5) or more years of creditable service in the Teachers' Retirement System;
- (2) You become disabled while an active contributing member of TRS;
- (3) You are declared physically or mentally incapacitated for the further performance of your duties, and your disability is likely to be permanent; and
- (4) The Teachers' Retirement Board has approved your Application for Disability Benefits.

The effective date of the disability benefit will be the first of the month following the date you terminate your employment. Ref: 19-4-901 MCA.

The disability benefit is determined by the following formula:

$$\text{DISABILITY BENEFIT} = \frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$$

The minimum disability benefit will be the greater of:

- (1) one-fourth (1/4) of your average final compensation; or
- (2) one-sixtieth (1/60) of your average final compensation multiplied by your total years of creditable service.

The amount of your monthly retirement benefit will depend upon the optional form you select. See optional forms of retirement benefits on Page 27. Under the Life Only Annuity (Normal Form) monthly benefits terminate upon your death. Under optional forms, A through E, your beneficiary at the time of retirement will continue to receive a monthly benefit following your death. The amount will depend upon the option selected and upon your age and the age of your beneficiary at retirement.

PROCEDURE TO APPLY FOR A DISABILITY RETIREMENT

You or your employer may apply for a disability retirement by writing the TRS office and providing the following information.

- (1) Name and address
- (2) Social Security Number
- (3) Current fiscal year's salary
- (4) The estimated dollar amount of any anticipated termination pay.
- (5) Date of birth
- (6) Beneficiary's name and date of birth
- (7) Date of retirement, or date of termination for payroll purposes if drawing sick leave.

You will receive two forms, an application for disability and an attending physician's statement (to be completed by your doctor), along with an estimate of disability benefits. The application and attending physician's statement must then be submitted to the TRS office for consideration by the TRS Board. Your employer will be asked to submit a written statement of the difficulties observed in the performance of your job duties. The TRS Board meets quarterly, therefore, you should check with the TRS office as to the meeting date in order to avoid any delay in reviewing your application for disability benefits.

EARNINGS AFTER DISABILITY RETIREMENT

A disability retiree may return to employment, including self employment, provided the combined disability benefit and earnings do not exceed the greater of your average final compensation or the median salary of those members retired during the preceding fiscal year. Should your earnings and disability benefits exceed the above, your disability benefit will be reduced so that your earnings and disability benefits do not exceed the greater of your average final compensation or the median salary of those members retired during the preceding fiscal year.
Ref: 19-4-904 MCA.

<u>For example:</u>	Average final compensation or median salary	\$23,500.00
	Less Annual disability benefits	<u>7,050.00</u>
	Allowable earnings	\$16,450.00

MEDICAL EXAMINATION

Once each year during the first five (5) years following your disability retirement and once every three (3) years thereafter, until the age of 60, the retirement board will require an earnings statement and a physician's certification of your continued disability. Ref: 19-4-903 MCA.

CANCELLATION OF DISABILITY BENEFITS

Your disability retirement may be cancelled by the retirement board for the following reasons:

- (1) The board determines you are no longer incapacitated from the performance of your duties.
- (2) As a disabled retiree you return to a position covered under the Teachers' Retirement System and earn more than the maximum allowed by law.
- (3) You fail to submit a physician's certification of continued disability.
- (4) You fail to submit your annual gross earnings statement when requested by the Teachers' Retirement Board. Ref: 19-4-903, 19-4-904 and 19-4-905 MCA.

If you are a disability retiree and are reinstated to active membership, all service credit at the time of your disability shall be restored in full to your account. You will not be required to repay the benefits you have received.

DEATH BENEFIT

If you die before retirement, your beneficiary may elect to receive a lump sum refund of your personal contributions plus interest. If you have a vested right at the time of your death, your beneficiary may elect to receive, in lieu of the lump sum refund of your account balance, a monthly survivor's benefit.

The effective date of the survivor's benefit will be the first of the month following the date of your death.

If you were a member of the system prior to July 1, 1973, the survivor's benefit is determined by the following formula then adjusted for the age of your beneficiary in relation to your age at the time of your death. If your beneficiary is older, the amount will be larger; if your beneficiary is younger, the amount will be less:

$$\text{SURVIVOR'S BENEFIT} = \frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$$

If you were a member of the system on or after July 1, 1973, and have a vested right, the survivor's benefit would be determined by the above formula and then adjusted for the factors shown under Option A on Page 32.

This benefit will be payable during your beneficiary's lifetime and cease upon their death. No optional forms are available.

If you are employed within one (1) year of your death, and you have a vested right, your beneficiary will receive a \$500.00 death benefit in addition to all other benefits payable. Ref: 19-4-1001 MCA.

A beneficiary of a retired member is also entitled to receive a \$500.00 death benefit. In the absence of a designated beneficiary the death benefit will be payable to the estate. Ref: 19-4-1002 MCA.

Upon your death, the TRS office should be notified immediately and the proper forms for applying for the death benefit will be sent to your beneficiary.

MINOR CHILD BENEFIT

In addition to the death benefit, your minor children would be entitled to receive a minor child benefit of \$200.00 per month provided you had 5 years of creditable service at the time of your death and were an active member in the State of Montana within one (1) year prior to your death. The monthly benefit will be paid until the child has attained age 18. The last payment will be made in the month in which age 18 is attained. This benefit is also payable to minor children of a retired member.

BENEFICIARY OF RECORD

The recipient of any death benefit will be the beneficiary of record on file with the Teachers' Retirement System. If you have a change of beneficiary, please make sure the proper designation is made on a beneficiary form provided by the

Teachers' Retirement System. Forms are available from either your employer or the Teachers' Retirement System. If you are not sure of your beneficiary designation, you may check with the Teachers' Retirement System. Ref: 19-4-1001 MCA.

OPTIONAL FORMS OF RETIREMENT BENEFITS

The amount of your monthly retirement benefit will depend upon the optional form you elect. Usually the largest amount is payable under the "Normal Form", which is the basic formula illustrated earlier. Under the optional forms, A through E, the amount of the benefit will depend on both your age and your beneficiary's age at retirement. Ref: 19-4-702 MCA.

Once you elect a retirement option, and receive the first monthly benefit, that option is irrevocable. It is important that you make a careful study prior to retirement regarding your future financial commitments. The staff of the Teachers' Retirement System is available to assist as much as possible in making the best decision, but will not recommend a choice.

NORMAL FORM: Life Only Annuity

This benefit will be payable during your lifetime. Upon your death prior to receiving benefits equal to your account balance at retirement (your contributions plus interest) the remainder will be refunded to your beneficiary.

OPTION A: Joint and Full to Beneficiary

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will continue to receive the same monthly amount during the remainder of their lifetime.

OPTION B: Joint and One-Half to Beneficiary

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will receive one-half (1/2) of that benefit during the remainder of their lifetime.

OPTION C: Joint and Two-Thirds to Beneficiary

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will receive two-thirds (2/3) of that benefit during the remainder of their lifetime.

- OPTION D: Joint and One-Half to Survivor
 This benefit will be payable while **both** you and your original beneficiary are living. Upon the death of either, (you or the beneficiary you select at retirement) the survivor will receive one-half (1/2) of the monthly benefit during the remainder of their lifetime. The reduced benefit will be adjusted retroactive to the date of death. The TRS Board must be notified within 30 days of the death of either you or the beneficiary you selected at retirement.
- OPTION E: Joint and Two-Thirds to Survivor
 This benefit will be payable while **both** you and your original beneficiary are living. Upon the death of either, (you or the beneficiary you select at retirement) the survivor will receive two-thirds (2/3) of that benefit during the remainder of their lifetime. The reduced benefit will be adjusted retroactive to the date of death. The TRS Board must be notified within 30 days of the death of either you or the beneficiary you selected at retirement.
- OPTION F: Special Plan
 Any actuarial equivalent mutually agreed upon between you and the retirement board.

TABLE A illustrates the benefits payable under the NORMAL FORM of retirement. TABLE B illustrates the benefits payable under Options A, B, C, D and E and are expressed as percentages of the NORMAL FORM. TABLE C provides the early retirement factors.

For example: Monthly benefits paid under Options A, C and E, using the following assumptions:

YEARS OF SERVICE	25
FINAL AVERAGE SALARY	\$29,000
MEMBER'S AGE	60
BENEFICIARY'S AGE	57
MONTHLY BENEFIT - NORMAL FORM	\$1,006.94
	(25/60 x \$29,000 ÷ 12)

OPTION A: Monthly Benefit
 $\$1,006.94 \times .8796^* = \885.70

Upon your death, the same amount (\$885.70) would continue throughout the lifetime of your beneficiary.

OPTION C: Monthly Benefit
 $\$1,006.94 \times .9164^* = \922.76

\$1,006.94 is payable as long as you are living. Upon your death, your beneficiary would receive two-thirds (2/3) or \$615.17, throughout their lifetime.

OPTION E: Monthly Benefit
 $\$1,006.94 \times .9428^* = \949.34

\$949.34 is payable as long as both you and your beneficiary are living. Upon the death of either you or your beneficiary, the survivor would receive 2/3, or \$671.29, throughout their lifetime.

*From Table B.

If you elect an optional retirement allowance, options A through E, you may request, in writing, to change the beneficiary designed at the time of retirement provided;

- (1) the designed beneficiary has died; or
- (2) you have divorced the designated beneficiary and they have not been granted the right to receive the optional retirement allowance upon your death as part of the divorce settlement. If the change is the result of divorce, a copy of the divorce decree and/or property settlement, whichever document indicates the original beneficiary is not entitled to receive the optional retirement allowance as part of the divorce settlement, will be required.

If your original beneficiary dies, the amount of your retirement allowance will be adjusted based upon the option you selected at the time of retirement. You may at any time, following the death of your original beneficiary, apply to designate a new beneficiary and select the same or a different retirement option. If you nominate a new beneficiary, your benefit will be actuarial adjusted based upon the difference in ages between yourself and your new beneficiary.

For example: If you elected option D when you retired and your monthly benefit at the time of your beneficiary's death was \$1,000.00, your monthly benefit would be reduced to \$500.00. If you apply to nominate a new beneficiary that is one (1) year younger than you and select option A, your monthly benefit will be adjusted based upon the current optional retirement factor for a member one (1) year older than the beneficiary or .8889. Your new monthly benefit will be \$444.45 (\$500.00 X .8889).

TABLE A

ILLUSTRATION OF MONTHLY BENEFITS - NORMAL FORM - AGE 60 - ANY AGE WITH 25 YEARS SERVICE

YEARS OF SERVICE	1,000	20,000	22,000	24,000	26,000	28,000	30,000	32,000	34,000	36,000	38,000	40,000
5	6.94	138.89	152.78	166.67	180.56	194.44	208.33	222.22	236.11	250.00	263.89	277.78
10	13.89	277.78	305.56	333.33	361.11	388.88	416.67	444.44	472.22	500.00	527.78	555.55
11	15.28	305.56	336.11	366.67	397.22	427.78	458.33	488.89	519.44	550.00	580.56	611.11
12	16.67	333.33	366.67	400.00	433.33	466.67	500.00	533.33	566.67	600.00	633.33	666.67
13	18.06	361.11	397.22	433.33	469.44	505.56	541.67	577.78	613.89	650.00	686.11	722.22
14	19.44	388.89	427.78	466.67	505.56	544.44	583.33	622.22	661.11	700.00	738.89	777.78
15	20.83	416.67	458.33	500.00	541.67	583.33	625.00	666.67	708.33	750.00	791.67	833.33
16	22.22	444.44	488.89	533.33	577.78	622.22	666.67	711.11	755.56	800.00	844.44	888.89
17	23.61	472.22	519.44	566.67	613.89	661.11	708.33	755.56	802.78	850.00	897.22	944.44
18	25.00	500.00	550.00	600.00	650.00	700.00	750.00	800.00	850.00	900.00	950.00	1000.00
19	26.39	527.78	580.56	633.33	686.11	738.89	791.67	844.44	897.22	950.00	1002.77	1055.55
20	27.78	555.56	611.11	666.67	722.22	777.78	833.33	888.89	944.44	1000.00	1055.56	1111.11
21	29.17	583.33	641.67	700.00	758.33	816.67	875.00	933.33	991.67	1050.00	1108.33	1166.67
22	30.56	611.11	672.22	733.33	794.44	855.56	916.67	977.78	1038.89	1100.00	1161.11	1222.22
23	31.94	638.89	702.78	766.67	830.56	894.44	958.33	1022.22	1086.11	1150.00	1213.89	1277.78
24	33.33	666.67	733.33	800.00	866.67	933.33	1000.00	1066.67	1133.33	1200.00	1266.67	1333.33
25	34.72	694.44	763.89	833.33	902.78	972.22	1041.67	1111.11	1180.56	1250.00	1319.44	1388.89
26	36.11	722.22	794.44	866.67	938.89	1011.11	1083.33	1155.55	1227.78	1300.00	1372.22	1444.44
27	37.50	750.00	825.00	900.00	975.00	1050.00	1125.00	1200.00	1275.00	1350.00	1425.00	1500.00
28	38.89	777.78	855.56	933.33	1011.11	1088.89	1166.67	1244.44	1322.22	1400.00	1477.78	1555.55
29	40.28	805.56	886.11	966.67	1047.22	1127.78	1208.33	1288.89	1369.44	1450.00	1530.56	1611.11
30	41.67	833.33	916.67	1000.00	1083.33	1166.67	1250.00	1333.33	1416.67	1500.00	1583.33	1666.67
31	43.06	861.11	947.22	1033.33	1119.44	1205.56	1291.67	1377.78	1463.89	1550.00	1636.11	1722.22
32	44.44	888.89	977.78	1066.67	1155.56	1244.44	1333.33	1422.22	1511.11	1600.00	1688.89	1777.78
33	45.83	916.67	1008.33	1100.00	1191.67	1283.33	1375.00	1466.67	1558.33	1650.00	1741.67	1833.33
34	47.22	944.44	1038.89	1133.33	1227.78	1322.22	1416.67	1511.11	1605.56	1700.00	1794.44	1888.89
35	48.61	972.22	1069.44	1166.67	1263.89	1361.11	1458.33	1555.56	1652.78	1750.00	1847.22	1944.44

TABLE C
EARLY RETIREMENT FACTORS

If you are not eligible for regular retirement,
apply the following factors to the appropriate monthly allowance.
Use the factor which provides the **larger** benefit.

Age	Factors	Years of Service	Factors
60	1.000	25	1.000
59	.940	24	.940
58	.880	23	.880
57	.820	22	.820
56	.760	21	.760
55	.700	20	.700
54	.664	19	.664
53	.628	18	.628
52	.592	17	.592
51	.556	16	.556
50	.520	15	.520

REFUNDS

If you are no longer employed in a position which would qualify you as a member of the system, you may request a refund of your personal contributions, plus interest. Termination of a contract does not automatically qualify you for a refund. If you leave one school district for employment in another district, you are not eligible for a refund. Ref: 19-4-603 MCA.

If you are eligible and request a refund, you will be sent the necessary application form. The refund form must be requested from the Teachers' Retirement System's office. No refund will be made until all contributions have been received from your employer. Contributions are generally submitted to the Teacher's Retirement System, from your employer, by the 15th of the month following the month the wages were earned.

Contributions withheld from your earnings and reported to the Teachers' Retirement System since July 1, 1985, plus the accrued interest will be fully taxable when you receive them in as a lump sum refund. Your voluntary contributions, remitted for the purchase of service credit or for termination pay are not subject to taxes as these contributions have not been tax deferred.

The taxable portion of the distribution from active participation in a plan before 1974 may be subject to long term capital gains treatment. The taxable portion for participation after January 1, 1974 is taxed as ordinary income. You will receive notice as to how much of the total distribution is subject to state and federal income taxes. The withdrawal may also be subject to an additional 10% federal

excise tax UNLESS it is received; after you have attained age 59 1/2, have become disabled, or have died. You are also exempt from the additional tax if: (1) you are at least age 55 and have 5 years of creditable service, or (2) to the extent you have off-setting medical expenses.

If, within 60 days of receipt, you elect to deposit the taxable amount in another qualified pension plan or an IRA, you need not consider this as taxable income, nor will you be subject to the additional 10% federal tax penalty. Transferring this amount to another qualified plan or an IRA will not affect the limits which otherwise exist on the annual amount you may deposit in an IRA. Amounts not deposited in a qualified plan or IRA may be eligible for a one time election for five-year income averaging. See IRS Publication 575 for further information.

If you are entitled to receive any form of termination pay and it is your intention to withdraw your account balance, you may not wish to select Option I or Option II. See "Earned Compensation Including Termination Pay" on page 9.

If your account represents at least five (5) years of service, you may wish to apply for monthly retirement benefits instead of withdrawing your account balance. (See "Retirement Benefits" on page 20.)

SOCIAL SECURITY COVERAGE

Most teachers in Montana have Social Security coverage. Benefits provided by the Teachers' Retirement System are independent of, and in addition to, any social security benefits a member may be entitled to receive.

The Social Security Administration will provide upon request a free personal earnings and benefit estimate statement, which includes estimates of future Social Security benefits.

To receive a statement, request Form SSA-7004 from your local Social Security office, or the form can be requested by calling 800 937-2000.

Within six weeks after returning the completed form, you should receive a statement listing estimates of: your monthly retirement benefit at ages 62, 65 and 70; your survivors' monthly benefits if you were to die this year; and your disability benefits if you were to become disabled this year. You will also be sent a summary of your past earnings.

Because the SSA's figures are only estimates based on your best guess of future earnings, you should review and adjust your earnings estimates every few years.

The new service can also be used to check the accuracy of Social Security records. You have approximately three years to correct any mistakes made in crediting your Social Security account. After that, you may not be able to claim any earnings the Government might have overlooked.

TAXATION OF BENEFITS

Retirement, disability and death benefits payable under provisions of the Retirement System are subject to federal and state income tax laws. The information provided below is general and may not apply to each individual case. You should contact your attorney, accountant, local Internal Revenue Service office, or the Montana Department of Revenue to obtain tax information regarding your benefits.

STATE TAXES

Effective January 1, 1991, all benefits are subject to state income tax as ordinary income in the year received. The first \$3,600 of your total pension income will be exempt from taxation. Each taxpayer filing singly, head of household, or married filing separately shall reduce the total amount of the exemption by \$2 for every \$1 of federal adjusted gross income received by you in excess of \$30,000. Ref: 15-30-101 MCA.

FEDERAL INCOME TAX

In general your gross benefit will not be completely subject to federal income tax. You can recover your cost of the pension benefit tax-free over your lifetime following retirement. Your cost is your investment in the pension benefit or the amount you contributed to the TRS and on which you already paid taxes. These include your personal contributions made prior to July 1, 1985, plus your additional contributions which you remitted to purchase additional service, and/or contributions made on termination pay. At the time you retire the Teachers' Retirement System will advise you of total contributions that may be recovered tax-free. IRS Publication 575 is available free of charge to assist you with the taxation of your pension.

The various rules for determining that part of your benefit which may be recovered tax-free are discussed in IRS Publications 575 and 939. The discussion in this handbook is limited to the "Simplified General Rule".

If you qualify to use the Simplified General Rule, you will probably find it both simpler and more beneficial than the General Rule for figuring the taxable and nontaxable parts of your benefit. To determine the nontaxable part of the benefit,

your cost of the benefit (contribution you paid taxes on) is divided by the total number of monthly annuity payments expected. This number is taken from the following table and is based on your age at the annuity starting date:

Age of Recipient	Number of Monthly Payments
55 and under	300
56-60	260
61-65	240
66-70	170
71 and over	120

Investment in Contract		
No. of monthly payments from table above	=	Tax-free portion of the monthly benefit

The same expected number of payments applies regardless of whether you are receiving a single life annuity or a joint and survivor annuity. The tax-free portion remains constant even if the amount of your monthly benefit increases due to cost of living increases or decreases in the case of a reduced survivor benefit. After the cost basis has been recovered by way of monthly exclusions, the full amount of your benefit will become taxable.

Additional tax exemptions may be available for disability benefits. You should contact your local Internal Revenue Service office for this information and request a copy of Publication 522, entitled "Disability Payments."

You will receive an informational tax letter after retirement, explaining the taxation of your benefit, as well as advising you of the total amount of your personal contributions, or cost basis. The contribution amount is not equal to your account balance, since your account balance includes non-taxed contributions and interest which has been credited to your account. This letter will provide you with all the information you will need to report your benefits for federal and state income tax purposes. IRS Publication 575, entitled "Pension and Annuity Income," offers a complete explanation regarding your retirement benefit and your federal income tax liability.

INCOME TAX WITHHOLDING

All monthly retirement benefits of \$796.00 or more may be subject to federal income tax withholding, however, you may elect not to have any deductions made. Withholding will only apply to that portion of your retirement benefit which is subject to federal income tax. Thus, there will be no withholding on the return of

your personal contributions. All persons affected by this federal regulation will be sent a notification of this requirement prior to January 1 of each year. The retiree or the beneficiary will then be able to select if, and how much, they would like deducted from their monthly retirement benefit. Failure to comply with this request before January 1 of each year may result in an automatic federal income tax withholding deduction.

Federal income tax withholding may be implemented on your benefit, or discontinued on your benefit, at any time by filing a Form W-4P with this office. You have the option of specifying a definite dollar amount to be withheld from each monthly benefit, or you may elect this office to determine the amount to be withheld from each monthly benefit in accordance with the monthly tax tables, your marital status and the number of exemptions you claim.

By January 31 of each year, TRS will mail Form 1099R, which gives you the total benefits you have received during the preceding calendar year and the total amount withheld for federal income tax purposes, when applicable.

EXEMPTION FROM LEGAL PROCESS

The pensions, annuities or any other benefits accrued or accruing to any person under the provisions of the Teachers' Retirement System and the accumulated contributions, cash and securities in the various funds of the retirement system are not subject to execution, garnishment, attachment by trustee process or otherwise, in law or equity, or any other process; and are unassignable, except as specifically provided in this chapter. Ref: 19-4-706 MCA.

WITHHOLDING OF GROUP INSURANCE PREMIUMS FROM RETIREMENT BENEFITS

A retired member who is a participant in an employer-sponsored group insurance plan may elect to have the monthly premiums withheld from their retirement benefit by contacting the payroll clerk at the place of their former employment. This provision does not include individual insurance policies. Ref:19-4-1003 MCA.

DEFINITIONS

For the purpose of this handbook, the following definitions apply:

"Accumulated contributions" means the sum of all contributions on the deposit with the retirement system together with interest.

"Administrative officers" means employees who have a significant degree of executive or policy-making authority and whose appointments are based on required training or experience in the field of education.

"Average final compensation" means the average of the earned compensation of a member during the three (3) consecutive years of full-time service which yield the highest average and on which contributions have been reported.

"Board" or **"retirement board"** means the Teachers' Retirement Board as provided for in 2-5-1010 MCA.

"Creditable service" means each year of service for which contributions to the retirement system were deducted from your compensation and remain on deposit with the system; any out-of-state employment service, any service while on leave, any service in the military, any private teaching service, any service for extension service employment, any service transferred from the Public Employees' Retirement System, or any service due to employment-related injury, and for which payment has been finalized.

"Earned compensation" means the full compensation, pay or salary actually paid to you and reported to the retirement system, including amounts paid under a salary reduction agreement, a cafeteria plan, a tax-sheltered annuity, a deferred compensation program and the value of any housing provided by the employer. The employer shall fix the value of any housing provided. The term does not include any other amounts paid in kind or fringe benefits not actually paid to you.

"Full-time service" means service which is full-time and which extends over a normal school year of at least nine (9) months or 180 full-time days in any one (1) school year. If a member contracts for employment in excess of nine (9) months, only one (1) year of creditable service shall be awarded for each fiscal year.

"Instructional services capacity" means to educate and instruct students in the regular curriculum of the institution or to take part in the curriculum development.

"Membership service" means the periods of employment which would entitle the person to active membership in the retirement system on which contributions have been reported and remain on deposit.

"Part-time service" means service which is less than full-time or which totals less than 180 full-time days in any one (1) school year. Part-time service shall be credited in the proportion that the actual time worked bears to full-time service.

"Service credits" or creditable service means the number of years credited to a member's account for which contributions have been received as required by statute or rule.

"School term" means the fiscal year July 1 through June 30.

"Vested right" means the completion of five (5) years of service or part-time service which totals five (5) years of full-time service in Montana and on which contributions have been paid and remain on deposit.

QUESTIONS AND ANSWERS

YOUR RETIREMENT ACCOUNT

(1) MAY I BORROW FROM MY ACCOUNT?

No, the retirement law has no provision for personal loans. Your account can be withdrawn only upon termination. (See "Refunds" on page 33).

(2) CAN MY BENEFITS BE GARNISHEED?

No, the retirement law provides that any benefits accrued or accruing are not subject to garnishment, execution or attachment.

(3) IS ANY PART OF MY REFUND TAXABLE?

Yes, the interest you receive and any contributions reported on the July 1985 report and thereafter.

SERVICE

(1) WHAT ADVANTAGES ARE THERE IN TAKING IMMEDIATE STEPS TO OBTAIN CREDIT FOR ALL SERVICE TO WHICH I MAY BE ENTITLED?

- (a) In the event of your death, the survivor's benefit will be based on the number of years which have been credited to your account at the time of your death. If you die prior to completing payment for additional service or redeposit of withdrawals, the service represented by the payments received prior to your death will be prorated and credited to your account, or your beneficiary may elect to complete payment and receive the full credit of service for which you were entitled.
- (b) If your previous withdrawals are redeposited, the years represented may be used to determine your vested right.
- (c) Interest charged will accrue each year the purchase of additional service or redeposit of withdrawals is delayed.

- (2) CAN I RECEIVE CREDIT FOR MILITARY SERVICE DURING THE VIETNAM WAR?

Vested members can receive free service credit of up to four (4) years for active military duty for the periods December 22, 1961 through May 7, 1975.

- (3) WHAT IS THE MAXIMUM AMOUNT OF SERVICE WITH WHICH I CAN BE CREDITED?

You will receive credit for all years of creditable service for which contributions have been reported, at the time of your retirement.

- (4) ARE THE ADDITIONAL CONTRIBUTIONS, PAID TO THE RETIREMENT SYSTEM FOR THE PURCHASE OF SERVICE, TAX DEFERRED LIKE THE MANDATORY CONTRIBUTIONS?

No, only the mandatory contributions which are "picked up" by your employer are tax deferred under section 414(h)(2) of the Internal Revenue Code. Any contributions withheld in accordance with the employee's option will not be considered "picked up" by the employer and are taxable.

- (5) IS THE INTEREST I PAY TOWARD THE PURCHASE OF CREDITABLE SERVICE OR ADDITIONAL SERVICE TAX DEDUCTIBLE?

No, the interest you pay to qualify service must be treated as your personal contributions. Since you have paid taxes on the additional contributions these contributions become your "cost basis." When you retire, you will recover your cost basis through the receipt of retirement benefits.

FINAL AVERAGE COMPENSATION

- (1) MAY I USE ANY OUT-OF-STATE TEACHING SALARY IN DETERMINING MY FINAL AVERAGE COMPENSATION?

No, only salaries earned in Montana upon which contributions have been made can be used.

BENEFITS

- (1) ARE BENEFITS PAID TO ME AUTOMATICALLY WHEN I BECOME ELIGIBLE?

No, you must request the proper application forms from TRS, the completed form must be returned to this office to become eligible for retirement benefits. (See "Retirement Application Procedure" on page 21).

- (2) WHEN SHOULD APPLICATION FORMS BE REQUESTED?

You should notify this office at least 90 days prior to your retirement. Applications should be requested immediately in the event of death or disability. See procedure on page 21.

- (3) WHEN WILL I RECEIVE MY BENEFIT CHECKS?

The benefit checks are mailed the last business day of each month.

- (4) MUST I DESIGNATE A BENEFICIARY OF MY ACCOUNT?

No, but it is recommended because in the absence of a designated beneficiary, any death benefit will be payable to your estate and, as such, will be subject to estate taxes.

- (5) MAY I DESIGNATE MORE THAN ONE BENEFICIARY?

Only if you elect payments under the Normal Form of retirement. If an option is elected at the time of application for benefits, only one beneficiary can be designated.

- (6) SHOULD I OR MY BENEFICIARY NOTIFY TRS UPON MY DEATH OR THE DEATH OF MY BENEFICIARY?

Yes, it is recommended you or your beneficiary notify TRS of the death as it may be necessary to stop the monthly benefit or adjust the monthly benefit in accordance with the option selected at the time of retirement. Any amounts overpaid as a result of a death must be reimbursed to this office. Upon the death of a retired member there is a \$500 death benefit payable to the primary beneficiary.

TEACHERS' RETIREMENT SYSTEM BUILDING
1500 SIXTH AVENUE
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